

KNOTT COUNTY SCHOOL DISTRICT

REPORT OF AUDIT

Year Ended June 30, 2003

# KNOTT COUNTY SCHOOL DISTRICT

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**KNOTT COUNTY SCHOOL DISTRICT**

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**JEFFREY HOLLIDAY**  
CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT

State Committee for School District Audits  
Members of Knott County Board of Education  
Hindman, Kentucky 41822

We have audited the accompanying basic financial statements of the Knott County School District, as of and for the year ended June 30, 2003, as listed in the table of contents. These basic financial statements are the responsibility of the Knott County School District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the provisions of Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and the audit requirements prescribed by the State Committee for School District Audits in Appendix I, II and III of the Independent Auditor's contract. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note B to the basic financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2002. This results in a change in the format and content of the basic financial statements.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Knott County School District as of June 30, 2003, and the results of its operations and the cash flows of its business type activities for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated November 20 2003, on our consideration of Knott County School District's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Knott County School District, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the general-purpose financial statements. The additional information presented as supplemental information is presented for the purposes of additional analysis and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Jeffrey Holliday  
Certified Public Accountant

Hazard, Kentucky

November 20, 2003

**KNOTT COUNTY SCHOOL DISTRICT – HINDMAN, KY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2003**

As management of the Knott County School District (District), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

**FINANCIAL HIGHLIGHTS**

- The beginning cash balance for the District was \$3.5 million.
- The board initiated new major renovation projects and issued bonds in fiscal 2003 totaling \$6.9 million.
- The General Fund had \$14.9 million in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. Excluding transfers, there were \$14.5 million in General Fund expenditures.
- Bonds are issued as the district renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The district’s total debt increased by \$9.1 million during the current fiscal year with escrowed cash of \$2.2 million for the refunding of prior bond issues resulting in a net increase of \$6.9 million.
- The district refinanced a 1993A, 1993B, and a 1994A, 1994B bond issues which resulted in a long term savings of \$16,786 a year for a total long-term savings of \$207,529.

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 8 - 9 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our family resource centers and food service operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 10 – 20 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 - 33 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$9.0 million as of June 30, 2003.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

### Net Assets for the period ending June 30, 2003

The current year's financial statements are dramatically different from past years as a result of implementing GASB 34. Attempting to compare this year's data with last year would be misleading to the reader however the district looks forward to offering comparative data in the future.

Current Assets	\$	9,850,165
Noncurrent Assets		<u>15,009,152</u>
<b>Total Assets</b>	<b>\$</b>	<b>24,859,317</b>
Current Liabilities	\$	2,603,938
Noncurrent Liabilities		<u>13,225,242</u>
<b>Total Liabilities</b>	<b>\$</b>	<b>15,829,180</b>
Net Assets		
Investment in capital assets (net of debt)	\$	1,838,573
Restricted		6,063,468
Unreserved Fund Balance		<u>1,128,096</u>
<b>Total Net Assets</b>	<b>\$</b>	<b>9,030,137</b>



The following are significant current year transactions that have had an impact on the Statement of Net Assets.

The district implemented GASB 34 and recorded fixed assets and debt for the first time.

### Comments on Budget Comparisons

- The District's total revenues for the fiscal year ended June 30, 2003, net of Interfund transfers, were \$20.7 million.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$1.9 million more than budget.
- The total cost of all programs and services was \$14.5 million.
- General fund budget expenditures to actual varied significantly in district administrative support (\$1.5 million) this resulted from the board establishing contingencies totaling \$1.3 million.

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2003.

#### Revenues:

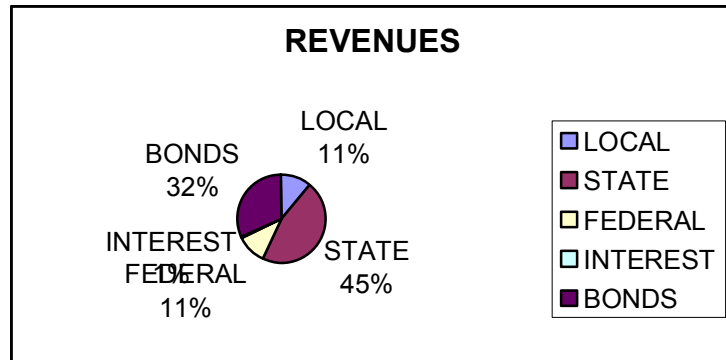
Local revenue sources	\$ 3,473,515
State revenue sources	13,792,164
Federal revenue	3,311,450
Investments	200,109
Bond proceeds	9,701,639
<b>Total revenues</b>	<b>\$ 30,478,877</b>

#### Expenses:

Instruction	\$ 13,694,107
Student support services	379,866
Instructional support	574,811
District administration	492,080
School administration	779,054
Business support	153,592
Plant operations	1,542,961
Student transportation	1,440,673
Central office support	83,820
Community support	498,773
Other	<u>6,245,665</u>
<b>Total expenses</b>	<b>\$ 25,885,402</b>
<b>Revenue in excess</b>	
<b>Of expenses</b>	<b>\$ 4,593,475</b>

### General Fund Revenue Chart 1.

The majority of revenue was derived from state sources (45%) with local taxes making up 11% of total revenue.



### BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$1.3 in contingency (5.6%). The beginning cash balance for beginning the fiscal year is \$3.5 million.

In July 2003 the Board approved a \$1.4 million renovation project at Knott Central High School, Beaver Creek, Carr Creek, and Hindman Elementary Schools.

Questions regarding this report should be directed to the Roger Martin, Director of Financial Services (606)785-3155.

KNOTT COUNTY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS

June 30, 2003

<b>Assets</b>	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
<b><u>Current Assets</u></b>			
Cash and Cash Equivalents	3,714,398	77,022	3,791,420
Accounts Receivable			
Taxes - Current	117,790	-	117,790
Taxes -Delinquent	2,260	-	2,260
Accounts receivable	60,118	7,814	67,932
Intergovernmental - State	1,237,019	-	1,237,019
Intergovernmental - Federal	-	6,615	6,615
Interest Receivable	-	-	-
Inventory	-	26,484	26,484
Investments	4,496,884	-	4,496,884
<b>Total Current Assets</b>	<b>9,628,469</b>	<b>117,935</b>	<b>9,746,404</b>
<b><u>Noncurrent Assets</u></b>			
Capital Assets	27,158,726	771,990	27,930,716
Less: accumulated depreciation	(12,314,411)	(607,153)	(12,921,564)
<b>Total noncurrent assets</b>	<b>14,844,315</b>	<b>164,837</b>	<b>15,009,152</b>
<b>Total Assets</b>	<b>24,472,784</b>	<b>282,772</b>	<b>24,755,556</b>
<b><u>Liabilities</u></b>			
<b><u>Current Liabilities</u></b>			
Accounts Payable	581,596	6,451	588,047
Deferred Revenue	884,341	-	884,341
Current portion of bond obligation	852,739	-	852,739
Current portion of capital lease obligations	-	-	-
Current portion of accrued sick leave	278,811	-	278,811
<b>Total current liabilities</b>	<b>2,597,487</b>	<b>6,451</b>	<b>2,603,938</b>
Noncurrent Liabilities	-	-	-
Noncurrent portion of bond obligations	12,421,601	-	12,421,601
Noncurrent portion of capital lease obligations	-	-	-
Noncurrent portion of accrued sick leave	803,641	-	803,641
<b>Total noncurrent liabilities</b>	<b>13,225,242</b>	<b>-</b>	<b>13,225,242</b>
<b>Total Liabilities</b>	<b>15,822,729</b>	<b>6,451</b>	<b>15,829,180</b>
<b><u>Net Assets</u></b>			
Invested in capital assets, net of related debt	1,569,975	164,837	1,734,812
Restricted for:			
Capital Projects	3,556,540		3,556,540
Debt Service	2,280,884		2,280,884
Other purposes(nonexpendable)	199,560	26,484	226,044
Unrestricted	1,043,096	85,000	1,128,096
<b>Total net assets</b>	<b>8,650,055</b>	<b>276,321</b>	<b>8,926,376</b>

KNOTT COUNTY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
Year ended June 30, 2003

**FUNCTIONS/PROGRAMS**

**Governmental Activities**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business Type Activities	Total
Instruction	14,175,623	14,876	3,827,951	-	(10,332,796)	-	(10,332,796)
Support services:							
Student	387,124	-	90,914	-	(296,210)	-	(296,210)
Instructional staff	594,343	-	208,956	-	(385,387)	-	(385,387)
District administrative	527,502	-	-	-	(527,502)	-	(527,502)
School Administrative	794,111	-	-	-	(794,111)	-	(794,111)
Business	153,592	-	-	-	(153,592)	-	(153,592)
Student transportation	1,463,338	-	86,591	-	(1,376,747)	-	(1,376,747)
Community service activities	509,596	-	498,773	-	(10,823)	-	(10,823)
Plant operation and maintenance	1,552,675	-	-	-	(1,552,675)	-	(1,552,675)
Central office	100,258	-	-	-	(100,258)	-	(100,258)
Facility acquisition and construction	-	-	-	661,551	661,551	-	661,551
Other	103,761	-	-	-	(103,761)	-	(103,761)
Interest on long-term debt	378,779	-	-	-	(378,779)	-	(378,779)
Depreciation	-	-	-	-	-	-	-
Total governmental activities	20,740,702	14,876	4,713,185	661,551	(15,351,090)	-	(15,351,090)
<b>Business type activities</b>							
Food Service	1,219,452	367,382	837,081	-	-	(14,989)	(14,989)
Daycare	128,354	136,589	-	-	-	8,235	8,235
Total business type activities	1,347,806	503,971	837,081	-	-	(6,754)	(6,754)
Total primary government	22,088,508	518,847	5,550,266	661,551	(15,351,090)	(6,754)	(15,357,844)

**General Revenues**

Taxes	3,430,973	-	-	3,430,973
State & formula grant	11,731,607	-	-	11,731,607
Investment earnings	197,379	283	-	197,662
Proceeds from bonds	-	-	-	-
Miscellaneous	27,666	-	-	27,666
Change in net assets	36,535	(6,471)	-	30,064
Net assets - beginning	8,613,520	282,792	-	8,896,312
Net assets - ending	8,650,055	276,321	-	8,926,376

**JEFFREY HOLLIDAY, CERTIFIED PUBLIC ACCOUNTANT**

KNOTT COUNTY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS

June 30, 2003	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets and Resources</b>					
Cash and Cash Equivalents	924,806	(333,335)	2,323,155	799,772	3,714,398
Accounts Receivable					
Taxes - Current	117,790	-	-	-	117,790
Taxes -Delinquent	2,260	-	-	-	2,260
Accounts receivable	60,118	-	-	13,510	73,628
Intergovernmental - State	-	1,237,019	-	-	1,237,019
Intergovernmental - Federal	-	-	-	-	-
Interest Receivable	-	-	-	-	-
Inventory	-	-	-	-	-
Investments	1,400,000	-	817,608	2,279,276	4,496,884
<b>Total assets and resources</b>	<u>2,504,974</u>	<u>903,684</u>	<u>3,140,763</u>	<u>3,092,558</u>	<u>9,641,979</u>
<b>Liabilities and Fund Balance</b>					
<b><u>Liabilities</u></b>					
Accounts Payable	179,866	19,343	379,288	16,609	595,106
Deferred Revenue	-	884,341	-	-	884,341
Current portion of accrued sick leave	-	-	-	-	-
<b>Total liabilities</b>	<u>179,866</u>	<u>903,684</u>	<u>379,288</u>	<u>16,609</u>	<u>1,479,447</u>
<b><u>Fund Balances</u></b>					
Reserved for:					
Inventory and fixed assets					
Capital Projects	-	-	-	50,401	50,401
Debt Service	-	-	-	2,280,884	2,280,884
Encumbrances	99	-	-	-	99
Accrued sick leave	199,560	-	-	-	199,560
Unreserved:					
General fund	2,125,449	-	-	-	2,125,449
Special revenue	-	-	-	-	-
Capital Projects	-	-	2,761,475	744,664	3,506,139
Debt Service	-	-	-	-	-
Other purposes(nonexpendable)	-	-	-	-	-
<b>Total fund balances</b>	<u>2,325,108</u>	<u>-</u>	<u>2,761,475</u>	<u>3,075,949</u>	<u>8,162,532</u>
<b>Total liabilities and fund balance</b>	<u>2,504,974</u>	<u>903,684</u>	<u>3,140,763</u>	<u>3,092,558</u>	<u>9,641,979</u>

KNOTT COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO  
THE STATEMENT OF NET ASSETS

June 30, 2003

Total Balance per fund financial statements	\$	8,162,532
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Amounts reported for governmental activities in the statement of net  
assets are different because:

Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	14,844,315
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Certain long-term assets are not reported in the financial statements because they are not available to pay current-period expenditures, but they are reported in the statement of net assets	-
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Certain long-term liabilities are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets	<u>(14,356,792)</u>
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Net assets in governmental activities	<u>\$</u>	<u>8,650,055</u>
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KNOTT COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS

Year ended June 30, 2003	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>					
From local sources:					
Taxes:					
Property	\$ 2,089,244	\$ -	\$ -	\$ 347,700	\$ 2,436,944
Motor vehicle	360,185	-	-	-	360,185
Utilities	633,844	-	-	-	633,844
Earnings under investments	100,454	2,729	93,285	3,641	200,109
Other local revenues	42,542	-	-	-	42,542
Intergovernmental - state	11,725,707	1,404,906	-	661,551	13,792,164
Intergovernmental - indirect federal	-	3,305,550	-	-	3,305,550
Intergovernmental - direct federal	5,900	-	-	-	5,900
<b>Total Revenues</b>	<u>14,957,876</u>	<u>4,713,185</u>	<u>93,285</u>	<u>1,012,892</u>	<u>20,777,238</u>
<b>EXPENDITURES:</b>					
Current:					
Instruction	9,582,837	4,098,929	-	12,341	13,694,107
Support Services:					
Student	288,952	90,914	-	-	379,866
Instructional staff	365,855	208,956	-	-	574,811
District Administration	492,080	-	-	-	492,080
School Administration	779,054	-	-	-	779,054
Business	153,592	-	-	-	153,592
Plant operations and maintenance	1,473,855	-	-	69,106	1,542,961
Student Transportation	1,354,082	86,591	-	-	1,440,673
Central Office	83,820	-	-	-	83,820
Non-instructional	-	498,773	-	-	498,773
Facilities acquisition and construction	-	-	4,832,208	299,018	5,131,226
Other	-	-	-	1,114,439	1,114,439
<b>Total Expenditures</b>	<u>14,574,127</u>	<u>4,984,163</u>	<u>4,832,208</u>	<u>1,494,904</u>	<u>25,885,402</u>
<b>Excess (deficit) of revenues over expenditures</b>	383,749	(270,978)	(4,738,923)	(482,012)	(5,108,164)
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from sale of bonds	-	-	-	9,701,639	9,701,639
Operating transfers in	-	270,978	6,726,085	459,849	7,456,912
Operating transfers out	20,329	-	-	7,436,583	7,456,912
<b>Total Other Financing sources (uses)</b>	<u>(20,329)</u>	<u>270,978</u>	<u>6,726,085</u>	<u>2,724,905</u>	<u>9,701,639</u>
<b>Excess (deficit) of revenues and other financing sources over expenditures and uses</b>	363,420	-	1,987,162	2,242,893	4,593,475
<b>Fund balance July 1, 2002</b>	<u>1,961,688</u>	<u>-</u>	<u>774,313</u>	<u>833,056</u>	<u>3,569,057</u>
<b>Fund balance June 30, 2003</b>	<u>\$ 2,325,108</u>	<u>\$ -</u>	<u>\$ 2,761,475</u>	<u>\$ 3,075,949</u>	<u>\$ 8,162,532</u>

KNOTT COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2003

Net change in total fund balance per fund financial statements	\$ 4,593,475
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Amounts reported for governmental activities in the statement of activities  
are different because:

Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceed depreciation expense for the year.	4,409,039
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The proceeds from the issuance of bonds provide current financial resources and are reported in this fund financial statement but they are presented as liabilities in the statement of net assets.	(9,701,639)
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Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	<u>735,660</u>
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Change in net assets of governmental activities	<u>\$ 36,535</u>
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KNOTT COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL  
GENERAL FUND

Year ended June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES:</b>				
From local sources:				
Taxes:				
Property	\$ 2,179,000	\$ 2,085,000	\$ 2,089,244	4,244
Motor vehicle	315,000	330,000	360,185	30,185
Utilities	525,000	590,000	633,844	43,844
Tuition and fees	-	-	-	-
Earnings under investments	110,000	120,000	100,454	(19,546)
Other local revenues	17,000	22,000	42,542	20,542
Intergovernmental - state	9,694,222	9,913,850	11,725,707	1,811,857
Intergovernmental - indirect federal	-	-	-	-
Intergovernmental - direct federal	10,000	10,000	5,900	(4,100)
<b>Total Revenues</b>	<u>12,850,222</u>	<u>13,070,850</u>	<u>14,957,876</u>	<u>1,887,026</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction	7,955,661	8,035,410	9,582,837	(1,547,427)
Support Services:				-
Student	350,089	299,359	288,952	10,407
Instructional staff	406,221	335,187	365,855	(30,668)
District Administration	1,249,897	2,087,702	492,080	1,595,622
School Administration	791,743	791,439	779,054	12,385
Business	142,481	151,174	153,592	(2,418)
Plant operations and maintenance	1,458,702	1,499,301	1,473,855	25,446
Student Transportation	1,453,346	1,464,150	1,354,082	110,068
Central Office	99,216	99,255	83,820	15,435
<b>Total Expenditures</b>	<u>13,907,356</u>	<u>14,762,977</u>	<u>14,574,127</u>	<u>188,850</u>
<b>Excess (deficit) of revenues over expenditures</b>	(1,057,134)	(1,692,127)	383,749	2,075,876
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers out	<u>70,000</u>	<u>70,000</u>	<u>20,329</u>	<u>49,671</u>
<b>Total Other Financing sources (uses)</b>	<u>70,000</u>	<u>70,000</u>	<u>20,329</u>	<u>49,671</u>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	(987,134)	(1,622,127)	404,078	2,026,205
<b>Fund balance July 1, 2002</b>	<u>1,127,134</u>	<u>1,762,127</u>	<u>1,762,127</u>	<u>-</u>
<b>Fund balance June 30, 2003</b>	<u>\$ 140,000</u>	<u>\$ 140,000</u>	<u>\$ 2,166,205</u>	<u>\$ 2,026,205</u>

KNOTT COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL  
SPECIAL REVENUE

Year ended June 30, 2003

	<u>Budgeted Amounts</u>			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
<b>REVENUES:</b>				
From local sources:				
Taxes:				
Property	\$ -	\$ -	\$ -	\$ -
Motor vehicle	-	-	-	-
Earnings under investments	2,000	4,533	2,729	(1,804)
Other local revenues	-	-	-	-
Intergovernmental - state	1,459,546	2,362,457	1,404,906	(957,551)
Intergovernmental - indirect federal	2,357,276	3,861,491	3,305,550	(555,941)
Intergovernmental - direct federal	-	-	-	-
<b>Total Revenues</b>	<u>3,818,822</u>	<u>6,228,481</u>	<u>4,713,185</u>	<u>(1,515,296)</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction	3,039,871	5,178,344	4,098,928	1,079,416
Support Services:				-
Student	44,488	81,983	90,914	(8,931)
Instructional staff	145,831	409,513	208,956	200,557
Plant operations and maintenance	125	280	-	280
Student Transportation	172,681	152,863	86,591	66,272
Central Office	14,000	(1,292)	38,478	(39,770)
Non-instructional	471,826	476,790	460,295	16,495
Other	-	-	-	-
<b>Total Expenditures</b>	<u>3,888,822</u>	<u>6,298,481</u>	<u>4,984,162</u>	<u>1,314,319</u>
<b>Excess (deficit) of revenues over expenditures</b>	(70,000)	(70,000)	(270,977)	(200,977)
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in	70,000	70,000	270,977	200,977
Operating transfers out	-	-	-	-
<b>Total Other Financing sources (uses)</b>	<u>70,000</u>	<u>70,000</u>	<u>270,977</u>	<u>200,977</u>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	-	-	-	-
<b>Fund balance July 1, 2002</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balance June 30, 2003</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

KNOTT COUNTY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS

June 30, 2003	FOOD SERVICE	OTHER ENTERPRISE FUNDS	Total
<b>Assets</b>			
<b><u>Current Assets</u></b>			
Cash and Cash Equivalents	\$ 66,750	\$ 10,272	\$ 77,022
Inventory	26,484	-	26,484
Accounts receivable	6,615	7,814	14,429
Due to other funds	-	-	-
<b>Total Current Assets</b>	<b>99,849</b>	<b>18,086</b>	<b>117,935</b>
<b><u>Noncurrent Assets</u></b>			
Capital Assets	771,990	-	771,990
Less: accumulated depreciation	(607,153)	-	(607,153)
<b>Total noncurrent assts</b>	<b>164,837</b>	<b>-</b>	<b>164,837</b>
<b>Total Assets</b>	<b>\$ 264,686</b>	<b>\$ 18,086</b>	<b>\$ 282,772</b>
<b>Liabilities</b>			
<b><u>Current Liabilities</u></b>			
Accounts Payable	\$ 5,902	\$ 549	\$ 6,451
Deferred Revenue	-	-	-
Current portion of accrued sick leave	-	-	-
<b>Total current liabilities</b>	<b>5,902</b>	<b>549</b>	<b>6,451</b>
Noncurrent portion of bond obligations	-	-	-
Noncurrent portion of capital lease obligations	-	-	-
Noncurrent portion of accrued sick leave	-	-	-
<b>Total noncurrent liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities</b>	<b>5,902</b>	<b>549</b>	<b>6,451</b>
<b><u>Net Assets</u></b>			
Invested in capital assets, net of related debt	164,837	-	164,837
Restricted for:			
Inventory	26,484	-	26,484
Unrestricted	67,463	17,537	85,000
<b>Total net assets</b>	<b>258,784</b>	<b>17,537</b>	<b>276,321</b>

KNOTT COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET ASSETS  
PROPRIETARY FUND TYPES

Year Ended June 30, 2003

	School Food Service Fund	Other Enterprise Funds	Total(Memo- randum Only)
OPERATING REVENUES:			
Tuition	-	136,589	136,589
Lunchroom sales	<u>367,382</u>	<u>-</u>	<u>367,382</u>
Total operating revenues	367,382	136,589	503,971
OPERATING EXPENSES:			
Salaries and wages	591,130	106,187	697,317
Contract services	9,780	650.00	10,430
Materials and supplies	538,137	13,697	551,834
Depreciation	40,510	-	40,510
Other operating expenses	<u>39,895</u>	<u>7,820</u>	<u>47,715</u>
TOTAL OPERATING EXPENSES	<u>1,219,452</u>	<u>128,354</u>	<u>1,347,806</u>
Operating income (loss)	<u>(852,070)</u>	<u>8,235</u>	<u>(843,835)</u>
NON-OPERATING REVENUES			
Federal grants	820,339	-	820,339
State grants	16,742	-	16,742
Interest income	283	-	283
Gain(Loss) on Disposal	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	837,364	-	837,364
Net income (loss) before operating transfers	(14,706)	8,235	(6,471)
Operating transfers	<u>-</u>	<u>-</u>	<u>-</u>
Net income (loss) before capital contributions	(14,706)	8,235	(6,471)
Retained earnings July 1, 2002	<u>273,490</u>	<u>9,302</u>	<u>282,792</u>
Retained earnings June 30, 2003	<u>\$ 258,784</u>	<u>\$ 17,537</u>	<u>\$ 276,321</u>

See notes to financial statements.

KNOTT COUNTY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS

Year ended June 30, 2003

**Cash Flows from Operating Activities**

Cash received from:

Lunchroom sales	\$ 367,382
Government grants	944,851
Other activities	154,066

Cash paid to/for:

Employees	(707,747)
Supplies	(550,313)
Other activities	<u>(47,715)</u>

**Net cash provided by operating activities** 160,524

**Cash Flows from Investing**

Receipt of Interest Income	<u>283</u>
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Net increase in cash and cash equivalents 160,807

**Balance, beginning of year** (83,785)

**Balance, end of year** \$ 77,022

Reconciliation of operating income(loss) to net cash provided  
(used) by operating activities

Operating Income	(6,471)
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Adjustments to reconcile operating income to net cash provided  
(used) by operating activities

Depreciation	40,510
Interest	(283)
Change in assets and liabilities	
Receivables	125,247
Inventory	-
Accounts Payable	1,521
Due to and from other funds	<u>-</u>

**Net cash provided by operating activities** \$ 160,524

Schedule of non-cash transactions:

Donated commodities received from federal government	<u>\$ 46,256</u>
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KNOTT COUNTY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

June 30, 2003	Private Purpose Trust Funds	Agency Funds
<b>Assets</b>		
Cash and cash equivalents	\$ 17,099	\$ 183,340
Accounts receivable	<u>-</u>	<u>660</u>
<b>Total assets</b>	<b><u>\$ 17,099</u></b>	<b><u>\$ 184,000</u></b>
<b>Liabilities</b>		
Accounts payable	<u>4,132</u>	<u>7,139</u>
<b>Total Liabilities</b>	<b><u>4,132</u></b>	<b><u>7,139</u></b>
<b>Net Assets Held in Trust</b>	<b><u>\$ 12,967</u></b>	<b><u>\$ 176,861</u></b>

KNOTT COUNTY SCHOOL DISTRICT

STATEMENT OF CHANGES FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

June 30, 2003	Private Purpose Trust Funds	Agency Funds
<b>Revenues:</b>		
Student Activities	\$ -	\$ 561,551
Donations	<u>132,833</u>	<u>-</u>
<b>Total revenues</b>	132,833	561,551
<b>Expenditures:</b>		
Instruction	170,533	-
Student activities	-	567,131
Community service	<u>579</u>	<u>-</u>
<b>Total Expenditures</b>	<u>171,112</u>	<u>567,131</u>
Change in net assets	(38,279)	(5,580)
Net assets, beginning of year	<u>51,245</u>	<u>182,441</u>
Net assets, end of year	<u>\$ 12,966</u>	<u>\$ 176,861</u>

KNOTT COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

REPORTING ENTITY

The Knott County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Knott County School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the Board is not included in any other governmental reporting entity as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, as Board members are elected by the public and has decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Knott County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the Board include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Knott County School District Finance Corporation - On June 13, 1993, the Knott County, Kentucky, Board of Education resolved to authorize the establishment of the Knott County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180, as an agency of the Board for financing the costs of school building facilities. The Board Members of the Knott County Board of Education also comprise the Corporations Board of Directors.

Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which government fund financial statements are prepared. Government fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the governmental funds.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.



KNOTT COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

The accounting and reporting treatment applied to a fund is determined by its measurement focus. The financial statements of the governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The following funds are maintained by the District:

**I. Governmental Fund Types**

(A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.

(B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

(C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
2. The Facility Support Program of Kentucky Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund includes Capital Projects Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

**(D) Debt Service Funds**

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

KNOTT COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (continued)  
June 30, 2003

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**II. Proprietary Funds (Enterprise Fund)**

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. This is a major fund for the District.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

**III. Fiduciary Fund Types (includes agency and trust funds)**

The Activity Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Uniform Program of Accounting for School Activity Funds.

**Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transaction – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. On a modified accrual basis, revenues from nonexchange transactions must be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocation of cost, such as depreciation, are not recognized in governmental funds.



KNOTT COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (continued)  
June 30, 2003

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2003, to finance the General Fund operations were \$.388 per \$100 valuation for real property, \$.388 per \$100 valuation for business personal property and \$.470 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Other	10 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

KNOTT COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2003

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method. No inventory is recorded in the general fund as items are ordered on an as need basis with as an no significant amounts kept on hand.

KNOTT COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2003

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Investments

The permanent funds record investments at their quoted market value prices for purposes of the Statement of Net Assets. All realized gains and losses and changes in fair value are recorded in the Statement of Activities. Long-term investments are not recorded on the fund financial statements nor are unrealized gains and losses.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

KNOTT COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2003

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**NOTE B – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE**

For the fiscal year ended June 30, 2003, the District implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions". For the fiscal year ended June 30, 2003 the District has implemented GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments".

GASB 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting.

The School District made several changes in accounting principles during the year. For governmental activities, they began recording the current portion of the accumulated sick leave liability, removed long-term investments not to be used for current expenditures, and began accounting for technology fund revenues in the special revenue fund. These changes bring the District's funds into compliance with the fund classifications and requirements of GASB 34.

KNOTT COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2003

**NOTE B – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE – CONTINUED**

Restatement of Fund Balance – The restatement for the above changes and the transition from governmental fund balance to net assets of the governmental activities is presented below:

	<u>General</u>	<u>Special Revenue</u>	<u>Construction</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balance June 30, 2002	\$ 1,961,688	\$ -	\$ 774,313	\$ 833,055	\$ 3,569,056
Adjusted Fund Balance, June 30, 2002	\$ <u>1,961,688</u>	\$ <u>          </u>	\$ <u>774,313</u>	\$ <u>833,055</u>	3,569,056
GASB 34 Adjustments:					
Capital Assets – Net of Depreciation					10,435,277
Long-Term Liabilities					(4,095,000)
Accumulated Sick Leave					(1,295,813)
Governmental Activities Net Assets, June 30, 2002					\$ <u>8,613,520</u>

**NOTE B – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE – CONTINUED**

The District reclassified several funds from proprietary to government funds based upon fund classifications presented in GASB 34. The District also had a fixed asset inventory taken to comply with GASB 34. This inventory revealed the existence of proprietary fixed assets that have not previously been recorded on the books. Changes as a result of the GASB 34 implementation are as follows:

	<u>Food Service</u>	<u>Non- Major</u>	<u>Total</u>
Fund Balance, June 30, 2002	\$ 111,882	\$ 9,302	\$ 121,184
Close out proprietary funds	-	-	-
Additional fixed assets	<u>161,607</u>	<u>-</u>	<u>161,607</u>
Adjusted Fund Balance, June 30, 2002	\$ <u>273,489</u>	\$ <u>9,302</u>	\$ <u>282,792</u>

As proprietary funds are already on the accrual basis, no adjustments are necessary for the Statement of Net Assets.



KNOTT COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2003

**NOTE C – ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE D – CASH AND CASH EQUIVALENTS**

At year-end, the carrying amount of the District's total cash and cash equivalents was \$8,488,742. Of the total cash balance, \$307,338 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2003 consisted of the following:

	<u>Book Balance</u>	<u>Bank Balance</u>
Bank of Hindman	\$ 6,187,010	\$ 8,135,815
Fifth Third Bank	574,629	574,629
Citizens Bank of Paintsville	1,719,765	1,719,765
Peoples Bank & Trust	<u>7,338</u>	<u>9,368</u>
	<u>\$ 8,488,742</u>	<u>\$ 10,439,577</u>

Breakdown per financial statements:

Governmental funds	\$ 8,211,282
Proprietary funds	77,022
Private purpose trust funds	17,100
Agency funds	<u>183,338</u>
	<u>\$ 8,488,742</u>

# KNOTT COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2003

### **NOTE E – INVESTMENTS**

The following is a comparison of the cost and fair value of investments held in trust at June 30, 2003:

	<u>Cost</u>	<u>Fair Value</u>
Permanent Funds		
Bonds and notes	\$ <u>4,496,884</u>	\$ <u>4,496,884</u>

The investments on the balance sheet of the Debt Service Fund are funds held by the financial institution for future debt service payments. The investments consist mainly of U.S. Treasury certificates and the market value approximates their cost.

### **NOTE F – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2003</u>
Land	\$ 2,057,351	\$ -	\$ -	\$ 2,057,351
Buildings and improvements	14,171,593	-	-	14,171,593
Technology equipment	2,007,819	104,280	-	2,112,099
General Equipment	1,007,160	43,688	-	1,050,848
Vehicles	2,565,937	173,433	-	2,739,370
Construction in progress	-	5,027,465	-	5,027,465
Totals at historical cost	<u>21,809,860</u>	<u>5,348,866</u>	<u>-</u>	<u>27,158,726</u>
Less: accumulated depreciation				
Buildings and improvements	7,486,216	465,855	-	7,952,071
Vehicles	1,822,039	191,284	-	2,013,323
Technology equipment	1,610,021	197,264	-	1,807,285
General equipment	456,307	85,425	-	541,732
Total accumulated depreciation	<u>11,374,583</u>	<u>939,828</u>	<u>-</u>	<u>12,314,411</u>
Governmental Activities Capital Assets – Net	\$ <u>10,435,277</u>	\$ <u>4,409,038</u>	\$ <u>-</u>	\$ <u>14,844,315</u>

#### Business-Type Activities

Food service and equipment	\$ 750,475	\$ -	\$ -	\$ 750,475
Technology equipment	21,515	-	-	21,515
Totals at historical cost	<u>771,990</u>	<u>-</u>	<u>-</u>	<u>771,990</u>
Less: accumulated depreciation				
Food service equipment	546,248	39,837	-	586,085
Technology equipment	20,395	673	-	21,068
Total accumulated depreciation	<u>566,643</u>	<u>40,510</u>	<u>-</u>	<u>607,153</u>
Business-Type Activities Capital Assets – Net	\$ <u>205,347</u>	\$ <u>348,328</u>	\$ <u>-</u>	\$ <u>164,837</u>

Depreciation expense was allocated to governmental functions.

KNOTT COUNTY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2003

**NOTE G – BONDED DEBT AND LEASE OBLIGATIONS**

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1993B	\$ 940,000	2.750% - 5.200%
1994A	1,750,000	4.000% - 6.000%
1994B	705,000	4.300% - 6.000%
1996	1,720,000	4.870% - 5.000%
2002	6,915,000	1.500% - 4.625%
2002R	1,820,000	1.250% - 4.000%
2003R	1,105,000	1.150% - 3.750%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Knott County Fiscal Court to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In connection with the school revenue bonds issued after 1993, the District entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2003 for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2003-04	830,000	403,581
2004-05	2,189,340	419,771
2005-06	445,000	409,775
2006-07	445,000	398,182
2007-08	465,000	385,243
2008-09	475,000	370,296
2009-10	495,000	353,662
2010-11	510,000	335,574
2011-12	540,000	310,695
2012-13	560,000	294,619
2013-14	635,000	270,897
2014-15	570,000	248,254
2015-16	545,000	218,432
2016-17	565,000	191,390
2017-18	590,000	167,129
2018-19	620,000	141,106
2019-20	650,000	113,159
2020-21	680,000	83,226
2021-22	715,000	51,222
2020-21	<u>750,000</u>	<u>17,344</u>
	\$ <u>13,274,340</u>	\$ <u>5,183,557</u>

On August 28, 2002 and March 25, 2003 the District issued revenue refunding bonds of \$1,820,000 and \$1,105,000 with interest rates varying from 1.25% to 4.00% to advance refund the 1994 and 1993 revenue bonds with interest rates ranging from 2.75% to 6.00%.

KNOTT COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2003

**NOTE H – COMMITMENTS UNDER NONCAPITALIZED LEASES**

Commitments under operating lease agreements for office equipment provide the minimum future rental payments as of June 30, 2003 as follows:

Year ending June 30:

2004	57,507
2005	49,236
2006	40,395
2007	18,368
2008	<u>9,103</u>
Total minimum payments	\$ <u>174,609</u>

**NOTE I – RETIREMENT PLANS**

Certified employees are covered under the Kentucky Teachers Retirement System ("KTRS"). Funding for the Plan is provided through payroll withholdings of 9.855% and matching state contributions. The matching contributions are paid by the Federal programs for any salaries paid by that program.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% and a Board contribution of 6.34% of the employee's total compensation subject to contribution.

The Board's total payroll for the year was \$13,907,288. The payroll for employees covered under KTRS was \$10,604,850 and for CERS was \$3,302,438.

The contribution requirement for CERS for the year ended June 30, 2003 was \$377,846 which consisted of \$209,015 from the Board and \$168,831 from the employees. The Board paid \$207,161 from federal grant monies to KTRS in matching contributions for federally funded employees.

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as a whole, derived from actuarial valuations performed as of the dates indicated:

	<u>KTRS</u> <u>June 30, 2001</u>	<u>CERS</u> <u>June 30, 2001</u>
Assets available for benefits, at fair value	\$ 13,299,200,000	\$ 6,910,500,654
Pension benefit obligation	<u>14,642,100,000</u>	<u>4,900,142,654</u>
(Underfunded)/overfunded pension benefit obligations	\$ <u>(1,342,900,000)</u>	\$ <u>2,010,358,000</u>

# KNOTT COUNTY SCHOOL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2003

### **NOTE I – RETIREMENT PLANS CONTINUED**

Ten-year historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2001 comprehensive annual financial reports.

As the District is only one of several employers participating in the Plan, it is not practicable to determine the District's portion of the unfunded past service cost or the vested benefits of the District's portion of the Plan assets.

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K) and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans.

### **NOTE J – COMMITMENTS**

Subsequent to the year ended June 30, 2003, the Board entered into construction contracts to be completed in the year ending June 30, 2004 and issued School Building Revenue Bonds totaling \$1,3700,000 for the cost of the projects. The bonds were dated July 1, 2003 and sold July 21, 2003.

### **NOTE K - CONTINGENCIES**

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

### **NOTE L - LITIGATION**

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress, except as described elsewhere in this report.

### **NOTE M - INSURANCE AND RELATED ACTIVITIES**

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes Workers' Compensation insurance.

KNOTT COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2003

**NOTE N - RISK MANAGEMENT**

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past fiscal years.

**NOTE O - DEFICIT OPERATING BALANCES**

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

Cordia Activity Fund	\$ 576
School Food Service	14,706
Hindman Activity Fund	11,242
Pearl Combs Activity Fund	716

**NOTE P - COBRA**

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

**NOTE Q - TRANSFER OF FUNDS**

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Matching	General	Special Revenue	Technology Match	20,329
Operating	Technology	Special Revenue	Close out	250,649
Operating	Debt Service	Construction	Bond Proceeds	6,726,085
Operating	Building	Debt Service	Debt Service	459,849

**SUPPLEMENTARY INFORMATION**

KNOTT COUNTY SCHOOL DISTRICT

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2003

Assets and Resources	SEEK				Total Nonmajor Governmental Funds
	Capital Outlay Fund	FSPK Fund	Technology Fund	Debt Service Fund	
Cash and Cash Equivalents	\$ 407,131	\$ 377,523	\$ -	\$ 15,118	\$ 799,772
Accounts Receivable	-	13,510	-	-	13,510
Inventory	-	-	-	-	-
Investments	-	-	-	2,279,276	2,279,276
<b>Total assets and resources</b>	<u>407,131</u>	<u>391,033</u>	<u>-</u>	<u>2,294,394</u>	<u>3,092,558</u>

Liabilities and Fund Balances:

Liabilities

Accounts Payable	-	3,099	-	13,510	16,609
Deferred Revenue	-	-	-	-	-
Current portion of bond obligation	-	-	-	-	-
Current portion of capital lease obligations	-	-	-	-	-
Current portion of accrued sick leave	-	-	-	-	-
<b>Total liabilities</b>	<u>-</u>	<u>3,099</u>	<u>-</u>	<u>13,510</u>	<u>16,609</u>

Fund Balances:

Invested in capital assets, net of related debt	-	-	-	-	-
Restricted for:					
Capital Projects	50,310	91	-	-	50,401
Debt Service	-	-	-	2,280,884	2,280,884
Other purposes(nonexpendable)	-	-	-	-	-
Unrestricted					
Unrestricted, reported in:					
Capital Projects	356,821	387,843	-	-	744,664
Debt Service	-	-	-	-	-
<b>Total Fund Balances</b>	<u>407,131</u>	<u>387,934</u>	<u>-</u>	<u>2,280,884</u>	<u>3,075,949</u>
<b>Total Liabilities and Fund Balances</b>	<u>407,131</u>	<u>391,033</u>	<u>-</u>	<u>2,294,394</u>	<u>3,092,558</u>



KNOTT COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS

Year ended June 30, 2003

	SEEK Capital Outlay Fund	FSPK Fund	Technology Fund	Debt Service Funds	Total Nonmajor Governmental Funds
<b>REVENUES:</b>					
From local sources:					
Taxes:					
Property	\$ -	\$ 347,700	\$ -	\$ -	\$ 347,700
Motor vehicle	-	-	-	-	-
Earnings under investments	-	-	2,989	652	3,641
Other local revenues	-	-	-	-	-
Intergovernmental - state	254,110	344,750	-	62,691	661,551
Intergovernmental - indirect federal	-	-	-	-	-
Intergovernmental - direct federal	-	-	-	-	-
<b>Total Revenues</b>	<u>254,110</u>	<u>692,450</u>	<u>2,989</u>	<u>63,343</u>	<u>1,012,892</u>
<b>EXPENDITURES:</b>					
Current:					
Instruction	-	-	12,342	-	12,342
Support Services:					
Student	-	-	-	-	-
Plant operations and maintenance	69,106	-	-	-	69,106
Facilities acquisition and construction	-	195,257	-	103,761	299,018
Other	-	-	-	1,114,439	1,114,439
<b>Total Expenditures</b>	<u>69,106</u>	<u>195,257</u>	<u>12,342</u>	<u>1,218,200</u>	<u>1,494,905</u>
<b>Excess (deficit) of revenues over expenditures</b>	185,004	497,193	(9,353)	(1,154,857)	(482,013)
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from sale of bonds	-	-	-	9,701,639	9,701,639
Proceeds from sale of fixed assets	-	-	-	-	-
Operating transfers in	-	-	-	459,849	459,849
Operating transfers out	-	459,849	250,648	6,726,085	7,436,582
<b>Total Other Financing sources (uses)</b>	<u>-</u>	<u>(459,849)</u>	<u>(250,648)</u>	<u>3,435,403</u>	<u>2,724,906</u>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	185,004	37,344	(260,001)	2,280,546	2,242,893
<b>Fund balance July 1, 2002</b>	<u>222,127</u>	<u>350,590</u>	<u>260,001</u>	<u>338</u>	<u>833,056</u>
<b>Fund balance June 30, 2003</b>	<u>\$ 407,131</u>	<u>\$ 387,934</u>	<u>\$ -</u>	<u>\$ 2,280,884</u>	<u>\$ 3,075,949</u>

KNOTT COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE  
Activity Funds  
For the year ended

	Beaver Creek Elementary Fund	Beckham Combs Elementary Fund	Caney Elementary Fund	Carr Creek Elementary Fund	Emmalena Elementary Fund	Hindman Elementary Fund	Jones Fork Elementary Fund	Pearl Combs Learning Center Fund
REVENUES	39,159	31,362	33,454	89,863	53,753	58,152	46,500	1,607
EXPENDITURES	<u>36,912</u>	<u>30,723</u>	<u>29,897</u>	<u>88,528</u>	<u>46,042</u>	<u>69,394</u>	<u>56,046</u>	<u>2,324</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURE	<u>2,247</u>	<u>639</u>	<u>3,557</u>	<u>1,335</u>	<u>7,711</u>	<u>(11,242)</u>	<u>(9,546)</u>	<u>(716)</u>
FUND BALANCE JULY 1, 2002	<u>22,590</u>	<u>12,480</u>	<u>5,235</u>	<u>22,577</u>	<u>14,187</u>	<u>28,992</u>	<u>28,466</u>	<u>3,908</u>
FUND BALANCE JUNE 30, 2003	<u>24,837</u>	<u>13,119</u>	<u>8,792</u>	<u>23,912</u>	<u>21,898</u>	<u>17,750</u>	<u>18,920</u>	<u>3,192</u>

KNOTT COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

CORDIA SCHOOL ACTIVITY FUND

Year Ended June 30, 2003

<u>Activity</u>	<u>Revenues</u>
Boys Basketball	7,487
7th and 8th Athletics	500
Baseball	4,874
General	13,147
FBLA	1,367
Grade School Softball	-
Flower Fund	375
Pop	8,762
Junior Class	2,008
Pens, Pencils, Paper	607
Development	1
Academic/Speech	1,747
Nabs	5,261
Elem. Cheerleaders	1,081
NOW Interest	88
Cheerleaders - Boys	2,070
Senior Class	600
Girls Basketball	4,370
Girls Softball	2,364
Cross Country and Track	3,434
Academics	-
General Athletics - Concession	2,989
General Athletics - Emergency	3,377
7th and 8th Athletics Boys	701
Multi Media	300
Yearbook	3,363
Textbook	-
	<hr/>
<u>Sub-Total</u>	<u>70,873</u>
<u>Less: Interfund Transfers</u>	<u>-</u>
	<hr/>
<u>Totals</u>	<u><u>70,873</u></u>

KNOTT COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

CORDIA SCHOOL ACTIVITY FUND

Year Ended June 30, 2003

<u>Expenditures</u>	<u>Excess (deficit) of Rev. over Expend.</u>	<u>Fund Balance July 1, 2002</u>	<u>Fund Balance June 30, 2003</u>
7,311	176	13	189
500	-	-	-
5,884	(1,010)	2,107	1,097
11,347	1,800	329	2,129
1,743	(376)	401	25
-	-	-	-
303	72	29	101
9,301	(539)	938	399
2,092	(84)	83	(1)
716	(109)	108	(1)
734	(733)	769	36
1,787	(40)	1	(39)
5,455	(194)	194	-
1,081	-	(1)	(1)
158	(70)	108	38
1,998	72	309	381
581	19	-	19
4,379	(9)	7	(2)
2,366	(2)	(376)	(378)
3,434	-	(835)	(835)
-	-	125	125
2,989	-	-	-
2,259	1,118	49	1,167
984	(283)	381	98
535	(235)	380	145
1,573	1,790	667	2,457
-	-	3	3
<u>69,510</u>	<u>1,363</u>	<u>5,789</u>	<u>7,152</u>
<u>-</u>			<u>-</u>
<u>69,510</u>	<u>1,363</u>	<u>5,789</u>	<u>7,152</u>

KNOTT COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
Knott Central High School Activity Funds  
Year ended June 30, 2003

Activity	Revenues	Expenditures	Excess (deficit) of Rev. over Expend	Fund Balance July 1, 2002	Fund Balance June 30, 2003
ACADEMIC	2,541	2,512	29	65	94
ART HONORS	583	1,025	(442)	472	30
ATHLETICS	14,827	13,169	1,658	273	1,931
BADGES ID	425	1,726	(1,301)	2,291	990
BASEBALL	8,078	4,867	3,211	-	3,211
BETA	946	547	399	95	494
BOARD REIMBURSEMENT	655	125	530	12	542
BOYS BASKETBALL BOOSTERS	4,347	3,400	947	-	947
BOYS BASKETBALL	7,236	7,172	65	-	65
CCM CONT. CHRIST CLUB	559	555	3	-	3
CEDAR	-	-	-	430	430
CHORUS	155	75	80	928	1,008
DANCE TEAM	1,882	1,687	194	-	194
FCCLA CL	4,436	4,998	(563)	1,530	967
FOOTBALL	12,208	11,478	730	-	730
FFA	460	1,363	(903)	1,608	705
GENERAL	7,934	13,405	(5,471)	12,388	6,917
GIRLS BB	7,376	7,336	40	-	40
GIRLS BOOSTERS	3,932	1,632	2,300	-	2,300
GIRLS CHEERLEADERS	3,386	2,908	478	82	560
HOME EC	1,362	1,166	195	39	234
HONORS SOCIETY	825	240	585	956	1,541
HOSPITALITY		493	(493)	493	(0)
INTEREST	572	670	(99)	-	(99)
JOURNAL	655	1,415	(761)	760	(1)
JUNIOR CLASS	12,380	11,127	1,253	188	1,441
KY RIVER COAL CO	1,500	3,042	(1,542)	1,663	121
LIBRARY	159	324	(166)	243	77
LITTLE THINGS	-	-	-	54	54
LOCKERS	2,700	2,700	-	-	-
MATH	-	-	-	164	164
PAGEANT	3,990	5,382	(1,392)	1,470	78
POMPOM	-	-	-	140	140
PROJECT GRADUATION	7,024	7,023	1	3,224	3,225
SCIENCE LAB	-	149	(149)	226	77
SCIENCE	664	89	575	513	1,088
SCHOOL MASTER ACCT				122	122
SENIORS	780	747	33	1,636	1,669
SENIORS 04	-	-	-	521	521
Softball	3,382	3,214	167	-	167
SPECIAL OLYMPICS	125	530	(405)	1,537	1,132
SPEECH	225	321	(95)	96	1
STOP	289	231	58	-	58
TENNIS	3,475	3,451	24	-	24
TEXTBOOK	3,377	6,200	(2,823)	2,823	(0)
TOBACCO GRANT	-	-	-	60	60
TRACK	600	-	600	-	600
T.U.F.F.				1	1
UK GRANT	1,000	-	1,000	1,000	2,000
VOLLEYBALL	1,607	1,606	0	-	0
YEARBOOK	17,988	17,555	433	109	542
<b>SUBTOTAL</b>	<b>146,642</b>	<b>147,657</b>	<b>(1,015)</b>	<b>38,212</b>	<b>37,197</b>
Less: Interfund Transfers	9,814	9,814			
<b>TOTAL</b>	<b>136,828</b>	<b>137,843</b>	<b>(1,015)</b>	<b>38,212</b>	<b>37,197</b>

KNOTT COUNTY SCHOOL DISTRICT

SCHEDULE OF BOARD MEMBERS AND OTHER OFFICIALS

Year Ended June 30, 2003

<u>Name</u>	<u>Term Began</u>	<u>Term Expires (d)</u>
Debbie Watts	January 1, 2001	December 31, 2004
Maxine Roberts	January 1, 2003	December 31, 2006
Doug Gibson	January 1, 1993	December 31, 2004
Langus Martin	January 1, 1997	December 31, 2004
Curtis Gayheart	January 1, 2003	December 31, 2006

<u>Other Officials:</u>	<u>Term Expires.</u>
Harold Combs, Superintendent	June 30, 2004
Roger Martin, Treasurer	June 30, 2003
Roger Martin, Secretary	June 30, 2003

KNOTT COUNTY SCHOOL DISTRICT  
SCHEDULE OF FEDERAL EXPENDITURES  
Year ended June 30, 2003

<u>U.S. Department of Education</u>	<u>CFDA Number</u>	<u>Pass Through Number</u>	<u>Dis- bursement</u>
Passed through the Kentucky Department of Education			
Title I 2002	84.010	351-02	199,032
Title I 2003	84.010	351-03	1,248,850
Title I Accountability 2001	84.348	356-01	23,671
Title I Accountability 2002	84.348	356-02	129,103
Title I School Improvement	84.010	n/a	10,573
Comprehensive School Refrom 2001	84.332	355-01	10,229
Comprehensive School Refrom 2002	84.332	355-02	34,658
Title VI 2001	84.298A	533-01	5,515
Title VI 2002	84.298A	533-02	7,175
Evenstart 2002	84.213	588-02	12,733
Evenstart 2003	84.213	588-03	79,911
IDEA-Basic 2002	84.027	581-02	42,114
IDEA-Basic 2003	84.027	581-03	488,089
IDEA-Part B, Preschool 2002	84.173	587-01	6,224
IDEA-Part B, Preschool 2003	84.173	587-02	68,323
Perkins Vocational Education 2002	84.048	581-02	856
Perkins Vocational Education 2003	84.048	581-03	25,765
Rural Schools Initiative	84.358	350-03	44,847
Class Size Reduction	84.340	534-02	481
Title II 2001	84.281A	530-01	21,528
Title II 2002	84.281A	530-02	16,611
Technology Literarcy Challenge Fund 2002	84.318	736-03	21,895
Technology Literarcy Challenge Fund 2001	84.318	736-01	9,151
Title IV 2002	84.186A	590-01	16,509
Title IV 2003	84.186A	590-03	12,833
Teacher Quality	84.367A	n/a	260,155

KNOTT COUNTY SCHOOL DISTRICT  
SCHEDULE OF FEDERAL EXPENDITURES  
Year ended June 30, 2003

Tech Prep	84.243	463-03	31,567
Goal 2001	84.276	733-01	113,745
21st Century	84.287	744-03	<u>75,000</u>
<b>Total U.S. Department of Education</b>			<u>3,017,143</u>
Passed through Center for Rural Development PRIDE	11.420	EF01-42	<u>10,911</u>
Passed through EKCEP EKCEP 2002	17.250	5952Y	101,170
EKCEP 2003	17.250	5952Y	149,116
Total U.S. Department of Labor			<u>261,197</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through the Kentucky Department of Education National School Lunch Program	10.555	575-02-03	609,998
National School Breakfast Program	10.553	576-02-03	220,468
Snack Program	10.558	579-02-03	46,204
Commodities	10.550	n/a	46,256
Summer Food Program	10.559	574-02	<u>5,594</u>
Total U.S DEPARTMENT OF AGRICULTURE			<u>928,520</u>
Total expenditures of federal awards			<u>\$ 4,206,860</u>



KNOTT COUNTY SCHOOL DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2003

NOTE – A    BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Knott County School District and is presented on the modified accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

NOTE – B    FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at fair market value of commodities received and disbursed. At June 30, 2003 inventory of food commodities totaled \$46,256.

KNOTT COUNTY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2003

Department of Agriculture

02-01 School Food Service Cluster CFDA 10.555 & 10.553

Requirement: Management of the District is responsible for establishing procedures for insuring That claims for reimbursement is made for lunches actually served to students.

Condition: Software used by the District allows no supervisory employees direct access to set up codes and procedures that may be changed by any employee having access to the lunch room computer terminal.

Questioned Cost: It is not possible to put an exact cost on the number of lunches that may have been claimed or not claimed.

Recommendation: Set up codes and procedures should be secured by password to ensure changes are made by only authorized personnel.

Response: The District is working closely with the software manufacturer to enable the protection of set up codes and procedures. The Food Service Director will view individual set ups at day end to check for any changes until further security can be established.

Follow Up: Food Service Directors monitors the set up daily on each system from the central office to ensure No changes have been made to the original codes. Any discrepancies are resolved.

## Section I-Summary of Auditor's Results

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Section II – Financial Statement of Findings

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No matters were reported.

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Section III – Federal Award Findings and Questioned Costs

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No matters were reported.

**JEFFREY HOLLIDAY**  
CERTIFIED PUBLIC ACCOUNTANT

JEFFREY HOLLIDAY, CPA

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

State Committee for School District Audits  
Members of Knott County Board of Education  
Hindman, Kentucky

We have audited the financial statements of Knott County School District as of and for the year ended June 30, 2003 and issued our report thereon dated November 20, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements prescribed by the State Committee for School District audits in the Guide for Auditing Local School District's Fiscal Records.

Compliance

As part of obtaining reasonable assurance about whether Knott County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. We noted certain immaterial instances of noncompliance that we have reported to the management of Knott County School District in a separate letter dated November 20, 2003.

In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in section 3 (9) (A) - (X) of the Procedures for Auditing Local School District's Fiscal Records that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Knott County Board of Education internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assistance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the Board of

Education in a separate letter dated November 20, 2003.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties

*Jeffrey Holliday, CPA*  
JEFFREY HOLLIDAY  
Certified Public Accountants

Hazard, Kentucky

November 20, 2003

**JEFFREY HOLLIDAY**  
CERTIFIED PUBLIC ACCOUNTANTS

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133

State Committee for School District Audits  
Members of Knott County Board of Education  
Hindman, Kentucky

Compliance

We have audited the compliance of Knott County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. Knott County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Knott County School District's management. Our responsibility is to express an opinion on Knott County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States: the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the audit requirements prescribed by the State Committee for School and OMB Circular A-133, Audits of states, local governments, and non-profit organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Knott County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Knott County School District's compliance with those requirements.

In our opinion, Knott County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of Knott County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Knott County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purposes of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



We noted no matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls over compliance that, in our judgement, could adversely affect Knott County School District's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

This report is intended for the information of the board members, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Jeffrey Holliday, CPA*  
JEFFREY HOLLIDAY  
Certified Public Accountants

Hazard, Kentucky

November 20, 2003

**KNOTT COUNTY SCHOOL DISTRICT**

**MANAGEMENT LETTER POINTS**

**JUNE 30, 2003**

**JEFFREY HOLLIDAY**  
CERTIFIED PUBLIC ACCOUNTANTS

JEFFREY HOLLIDAY, CPA

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November 20, 2003

Knott County Board of Education  
Hindman, Kentucky 41822

In planning and performing our audit of the financial statements of Knott County School District for the year ended June 30, 2003, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operation efficiency. The memorandum that accompanies this letter summarized our comments and suggestions regarding those matters. A separate report dated November 20, 2003, contains our report on reportable conditions and material weaknesses in the District's internal control structure. This letter does not affect our report dated November 20, 2003, on the financial statements of the Knott County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

*Jeffrey Holliday, CPA*

JEFFREY HOLLIDAY  
Certified Public Accountants  
Hazard, Kentucky

KNOTT COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER POINTS

Year Ended June 30, 2003

1. The following are responses to previous year management letter points:

**Activity Funds:**

A: Purchase orders should be used for all purchases:

Caney Elementary

Response: Purchase orders will be used for all necessary purchases.

Follow up: Purchase orders were properly used.

B: Purchase should be made from vendor on the bid list:

Caney Elementary

Hindman Elementary

Response: Board Policy is that all items be purchased from the bid list.

Follow up: All schools had a bid packet and no items were bought that were purchased from vendors not on the bid list.

C: Board Policy should be reviewed concerning doing business with family members.

All schools

Response: Board policy will be reviewed concerning doing business with family members of school principals and teachers

Follow up: No action was noted in the minutes concerning doing business with family members of school principals and teachers.

D: Budgets should be prepared for all accounts and kept on file.

Jones Fork Elementary

Response: Budgets will be prepared for all accounts. 2003 Budgets were presented to the auditor

Follow up: Budgets were prepared for all accounts

E. Individual activity accounts should not end the year with a deficit balance.

Cordia Schools

Response: All expenditures from activity funds will be properly funded.

Follow up: No activity accounts were found to have a deficit balance

F. All booster clubs should provide the school principal with annual reports.

Cordia Schools

Response: All booster clubs will be advised of their reporting requirement.

G. Fundraising documentation should be maintained for all fundraisers.

Beckham Combs Elementary

Response: All fundraising will be properly documented.

Follow Up: Fundraisers audited had adequate documentation

KNOTT COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER POINTS

Year Ended June 30, 2003

The following are items we noted in our current year audit that were not previously noted in prior years:

- A.     Requirement:     Purchase Orders and Purchase request should be issued before items are purchased.
- Finding:         Purchase orders were issued and dated after the date of purchase.  
                              Carr Creek Elementary  
                              Cordia Schools
- Response:       Where applicable purchase orders will be issued before a purchase.
- B:     Requirement:     Receipts in activity funds should be properly documented using forms prescribed by the Uniform Accounting for School Activity Funds (the Red Book).
- Findings:       Monitoring of concession sales was not adequate.  
                              Beckham Combs  
                              Cordia Schools
- Deposit ticket should list checks individually and cash. Beaver  
                              Beaver
- Ticket colors should be alternated between consecutive events  
                              Jones Fork Elementary
- Response:       All teachers and treasurers are aware of the Red Book requirements and will implement all procedures appropriately.
- C.     Requirement:     All expenditures from activity funds should contain proper documentation and be cleared canceled to demonstrate that all goods were received.
- Findings:       Sponsors should maintain all receipts to account for money spent on trips and amount to be returned to the activity.  
                              Hindman Elementary  
                              Cordia Schools
- Invoices were not clearly marked to demonstrate receipt of goods.  
                              Knott County Central High School
- Response:       Sponsors will be asked to remit all receipts for expenses and all invoices will be signed by the receiving individual.